Why I’d Buy Dirt-Cheap Shares Now and Aim to Hold Them for a Decade

Description

A strategy of buying dirt-cheap shares and holding them for the long run has been relatively successful in the past. After all, it allows an investor to take advantage of the market cycle through buying undervalued shares in uncertain periods and holding them through a long-term recovery.

Of course, such a scenario is by no means guaranteed. Some cheap stocks may fail to bounce back from their present woes.

However, a likely economic recovery and low share prices for some high-quality businesses suggest that now could be a sound moment to buy a diverse range of undervalued stocks.

High-quality companies with dirt-cheap shares

Some dirt-cheap shares deserve their low prices at the present time. For example, they may have strategies that cannot be easily adapted to a rapidly-changing world economy. Or, they could have weak financial positions that do not allow them to invest where necessary to become more competitive.

However, in other cases, today’s cheap stocks could offer good value for money. Certainly, some companies face challenging futures caused by economic woes. However, they may have access to large amounts of liquidity to strengthen their financial prospects. Equally, they could have a long track record of recovering from similar scenarios. Therefore, their valuations may not fully reflect their capacity to deliver improving financial performances in the coming years.

A track record of recovery

Predicting how dirt-cheap shares will perform in future is extremely challenging. After all, the future is always a known unknown. However, the past performance of the economy suggests that improving operating conditions are likely to be ahead. After all, no economic downturn has ever lasted in perpetuity. This suggests that many of today's cheap stocks could enjoy higher demand for their products and services in future.

Moreover, the scale of monetary policy stimulus announced during the coronavirus pandemic indicates that a brighter economic outlook could be ahead. As vaccine rollouts continue and lockdowns fade, consumer spending and economic growth could react positively. This may mean that many of today's dirt-cheap shares may benefit from a return to normality over the coming months and years.

Buying undervalued shares

Clearly, not all dirt-cheap shares will recover from their low price levels. Therefore, it is important to be selective about the companies that are added to a portfolio. This can mean avoiding those businesses that have less financial stability, or that operate in industries that may become increasingly obsolete in the coming years.

While a stock market rally may have taken place, not all companies have surged in price over recent months. Through buying cheaper businesses and holding them for the long run, it may be possible to enjoy greater scope for capital returns as a likely economic recovery replaces recent difficulties to provide improved operating conditions.

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